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SUBJECT: MOZAMBIQUE - AGOA ELIGIBILITY REPORT FOR 2006

REF: STATE 170577

[1](#)1. Summary: Mozambique meets the requirements for benefits under the African Growth and Opportunity Act (AGOA). The Government of the Republic of Mozambique (GRM) continues to make progress in establishing a market-based economy, eliminating barriers to US trade and investment, reducing poverty, promoting democracy, and protecting workers' rights. This positive trend should continue, especially as Mozambique begins to benefit economically from higher levels of international trade and investment, and deepens its trade ties with the United States under the Bilateral Investment Treaty (BIT) and Trade and Investment Framework Agreement (TIFA). End Summary.

Market-Based Economy

[1](#)2. Mozambique continues to have one of the most dynamic and fastest-growing economies in sub-Saharan Africa, although the growth is from a very low base. Mozambique's decade-long commitment to sound macroeconomic policies and structural reform, though it remains supported by substantial donor assistance, has led to a significant improvement in economic performance. Real GDP growth since 1993 has averaged 8.1 percent annually, and measured 7.2 percent in 2004. Inflation was 9.1 percent in 2004. In 2005 real GDP growth is projected to increase to 7.7 percent and inflation targeted to decline to 8 percent. These achievements were facilitated by a stable political situation, as illustrated by the smooth transition to a new administration following the 2004 presidential and parliamentary elections. Mozambique encourages foreign direct investment, and the CPI, the government's Investment Promotion Center, has been active in bringing investors into Mozambique. Foreign investors have participated without impediments in Mozambique's privatization program.

[1](#)3. Since the end of the civil war in 1992, the GRM has privatized more than 1,200 enterprises. Approximately a dozen large state-owned or operated companies remain, in the following sectors: telecommunications, electricity, insurance, oil and gas exploration, port and rail, airlines and airports, water supply, and fuel distribution. Private investors manage and are rehabilitating the main ports of Maputo, Beira, Nacala and Quelimane through concession agreements. Negotiations were finalized in August 2004 on the Nacala Corridor Development Project for the rehabilitation and modernization of the railroad and port system on a key transport route between Malawi, Zambia and Mozambique. In November 2004 a consortium led by Brazilian Companhia Vale do Rio Doce (CVRD) won rights to a massive coal deposit concession in the Moatize region of central Mozambique. Tenders for the restructuring of the state-owned telecommunications company may be launched in late 2005 or [2](#)2006. Mozambique retained its international credit rating of B/B by Standard and Poors, reflecting Mozambique's positive track record on economic reforms, political stability, strong economic growth, openness to FDI, and expanding exports.

Elimination of Barriers to US Trade/Investment

[1](#)4. Although quite small, U.S.-Mozambican trade is expanding, with the vast majority of Mozambique's exports to the US entering under either AGOA or GSP. Mozambique's 2004 exports under AGOA and its GSP provisions were valued at USD 8 million, representing 80 percent of the country's total exports to the United States. The EU is the largest market for Mozambican exports. South Africa and Japan are also important trading partners. South Africa and Portugal are the leading foreign investors. Mozambique does not generally use non-tariff barriers to trade. Mozambique is an active member of the Southern African Development Community (SADC). In March 2005 a U.S.-Mozambican Bilateral Investment Treaty (BIT) entered into force. In June 2005 the two countries signed a Trade and Investment Framework Agreement (TIFA). These two agreements augur well for increased AGOA-related trade and investment in the future.

[1](#)5. The GRM recognizes the importance of removing a number of obstacles to private sector development. To this end, steps are being taken to reduce the cost of doing business in Mozambique, address rigidities in the labor market, and improve basic infrastructure. The authorities have taken further steps to lower the cost of doing business by establishing "one-stop shops" for business registration in another four locations (Cabo Delgado, Tete, Inhambane and Nampula) that are expected to be in operation by the end of

12005. Business licensing procedures are being changed so as to bring a larger share of small and medium enterprises into the formal registration system. The first step was taken in 2004, with the simplification of licensing procedures. However continued work is needed to streamline company registration processes and to share information about regulations and procedures between the private sector and government agencies. The GRM has worked with the private sector to improve intellectual property rights protection, but has little ability to investigate crimes or enforce IPR laws.

Poverty Reduction

16. Illiteracy and infant mortality rates in Mozambique remain among the highest in Africa. Life expectancy is 46 years and, as a result of AIDS, is expected to decline into the 30s by 2010. The country also lacks infrastructure, power, and clean water for most of its citizens. The GRM has placed poverty alleviation at the head of its policy agenda. Mozambique has made tangible progress in this area, reducing poverty rates from 69 percent in 1996 to 54 percent in 2004. Its Plan for the Reduction of Absolute Poverty (PARPA) emphasizes six areas as key reducers of absolute poverty: education; health; basic infrastructure; agriculture and rural development; good governance; and macroeconomic and financial management. PARPA II, covering the period 2006-2010, will commence in February 2006. The donor community funds approximately 50 percent of the national budget, though the HIPC and Enhanced HIPC (Heavily Indebted Poor Countries) debt relief programs have permitted increased budgetary support to alleviate poverty by making long-term investments in health, agriculture, basic infrastructure, and education.

Democratic Consolidation/Rule of Law/Corruption

17. Mozambique has made significant progress in the consolidation of democracy since the signing of the 1992 Rome Peace Accord that ended sixteen years of civil war. Mozambique has a democratically elected government. In December 2004 Armando Guebuza, secretary-general of the ruling Frelimo party, was elected president with 64 percent of the vote, compared to 32 percent for his nearest competitor. The election was generally considered free and fair, but was marred by some irregularities, which did not affect the outcome of the presidential election or control of the national assembly. The political opposition retains 36 percent of seats in the national assembly and holds five mayorships, including that of Beira, the nation's second-largest city.

18. Though President Guebuza has repeatedly emphasized his desire to wage a serious campaign against corrupt government practices, corruption continues to undermine Mozambique's democratic consolidation and economic growth. In 2004 the National Assembly passed a new Anti-Corruption Law, aimed at curbing corruption in government offices, the police force, hospitals and the schools. In August 2005 the Attorney General formally announced the creation of the Central Office for the Combat of Corruption (GCCC), which replaced the Anti-Corruption Unit (UAC) as Mozambique's primary corruption fighting office. Unlike the UAC, the newly established GCCC functions as an autonomous unit under the Attorney General's Office, with its own state budget and authority to hire additional permanent full-time prosecutors and investigators. Mozambique's judiciary continues to be under-trained, understaffed and susceptible to pressure from high-ranking government officials and bribery by private parties. However in recent years the number of trained attorneys and judges in Mozambique has risen dramatically, giving hope for a more professional judiciary in the future.

Workers Rights

19. The Constitution provides that all workers are free to join or refrain from joining a trade union, and workers enjoy these rights in practice. Labor unions, created during the socialist years, remain weak and lack resources. The Organization of Mozambican Workers (OTM-Central Sindical), an umbrella organization for 13 trade unions representing 1,470 companies, reports just over 94,000 union members among its affiliates. The smaller Confederation of Free, Independent Trade Unions (CONSILMO), representing four trade unions, has approximately 57,000 unionized members. Mozambique's labor law, currently under revision with a draft targeted for late 2005 or early 2006, is very rigid. Although labor unions are exerting significant pressure on the government to keep many of the law's provisions, the private sector is pushing for more flexible legislation to promote increased investment. In 2005 the GRM increased the country's statutory minimum wage by 14 percent, slightly above the 2004 inflation rate.

Human Rights and Child Labor

110. Mozambique does not engage in gross violations of

internationally recognized human rights, though there remains room for improvement and abuses do occur. Child labor remains a problem in Mozambique. A 2003 study estimated that one-third of children between ages 10 and 14 were economically active. This is largely the result of children working in the informal sector due to non-existent educational opportunities, rather than children being used as laborers in the formal industrial sector, something that rarely happens. Mozambique has ratified ILO convention 105 on forced labor and ILO convention 182 on the worst forms of child labor.

Recommendation

11. Post strongly believes that the progress made by Mozambique in its economic and political policies further solidifies its qualification for AGOA benefits. Post is confident that this positive trend will continue, especially as Mozambique benefits economically from higher levels of international trade and foreign investment. Mozambique's trade posture should also improve as it deepens bilateral trade ties with the United States under the recently signed BIT and TIFA.

La Lime